

EL DORADO COUNTY

Audit Report

CANCER PRESUMPTION- PEACE OFFICERS PROGRAM

Chapter 1179, Statutes of 1989

July 1, 2001, through June 30, 2004



JOHN CHIANG
California State Controller

August 2007



JOHN CHIANG
California State Controller

August 24, 2007

The Honorable Joe Harn
Auditor-Controller
El Dorado County
County Government Center
360 Fair Lane
Placerville, CA 95667

Dear Mr. Harn:

The State Controller's Office audited the costs claimed by El Dorado County for the legislatively mandated Cancer Presumption–Peace Officers Program (Chapter 1179, Statutes of 1989) for the period of July 1, 2001, through June 30, 2004.

The county claimed \$461,364 for the mandated program. Our audit disclosed that \$223,308 is allowable and \$238,056 is unallowable. The unallowable costs occurred primarily because the county claimed unallowable costs, misclassified revenues as expenditures, and overstated offsetting revenues. The State made no payment to the county. The State will pay allowable costs claimed that exceed the amount paid, totaling \$223,308, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at CSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm

cc: Lisa Hoas, Sr. Risk Management Analyst
El Dorado County
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance

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Audit Report

Summary

The State Controller’s Office (SCO) audited the costs claimed by El Dorado County for the legislatively mandated Cancer Presumption–Peace Officers Program (Chapter 1171, Statutes of 1989) for the period of July 1, 2001, through June 30, 2004. The last day of fieldwork was April 12, 2007.

The county claimed \$461,364 for the mandated program. Our audit disclosed that \$223,308 is allowable and \$238,056 is unallowable. The unallowable costs occurred primarily because the county claimed unallowable costs, misclassified revenues as expenditures, and overstated offsetting revenues. The State made no payment to the county. The State will pay allowable costs claimed that exceed the amount paid, totaling \$223,308, contingent upon available appropriations.

Background

Chapter 1171, Statutes of 1989, amended Labor Code section 3212.1 by adding “peace officers, as defined in Penal Code section 830.1 and .2, who are primarily engaged in active law enforcement activities” to the category of public employees that are covered by its provisions. Previously, the provisions only applied to public sector fire fighting personnel. This section states that cancer that has developed or manifested itself in peace officers will be presumed to have arisen out of and in the course of employment, unless other evidence controverts the presumption. The presumption is extended to a peace officer following termination of service for a period of three calendar months for each year of requisite service, but not to exceed 60 months in any circumstance, commencing with the last date actually worked in the specified capacity.

On July 23, 1992, the Commission on State Mandates (CSM) determined that Chapter 1171, Statutes of 1989, imposed a state mandate reimbursable under Government Code section 17561. In compliance with Government Code section 17558, the State Controller’s Office issues claiming instructions for each mandate requiring state reimbursement to assist any city, county, school or special district which incurs increased costs in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Cancer Presumption–Peace Officers Program for the period of July 1, 2001, through June 30, 2004.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county’s financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain

reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, El Dorado County claimed \$461,364 for costs of the Cancer Presumption–Peace Officers Program. Our audit disclosed that \$223,308 is allowable and \$238,056 is unallowable

For the fiscal year (FY) 2001-02 claim, the State made no payment to the county. Our audit disclosed that \$180,568 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2002-03 claim, the State made no payment to the county. Our audit disclosed that \$19,532 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$23,208 is allowable. The State will pay that amount, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on July 31, 2007. We contacted Lisa Hoaas, Senior Risk Management Analyst, by e-mail on August 15, 2007. Ms. Hoaas did not respond to the draft report.

Restricted Use

This report is solely for the information and use of El Dorado County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

**Schedule 1—
Summary of Program Costs
July 1, 2001, through June 30, 2004**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 558	\$ 685	\$ 127	Finding 3
Benefits	131	160	29	Finding 3
Disability payments	89,448	77,144	(12,304)	Finding 2
Services and supplies	497,547	282,742	(214,805)	Finding 1
Total direct costs	587,684	360,731	(226,953)	
Indirect costs	330	405	75	Finding 3
Total program costs	588,014	361,136	(226,878)	
Reimbursement percentage	× 50%	× 50%	× 50%	
Total claimed costs	<u>\$ 294,007</u>	180,568	<u>\$ (113,439)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 180,568</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries	\$ 423	\$ 423	\$ —	
Benefits	113	113	—	
Services and supplies	210,095	38,362	(171,733)	Finding 1
Total direct costs	210,631	38,898	(171,733)	
Indirect costs	165	165	—	
Total program costs	210,796	39,063	(171,733)	
Reimbursement percentage	× 50%	× 50%	× 50%	
Total claimed costs	<u>\$ 105,398</u>	19,532	<u>\$ (85,866)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 19,532</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Salaries	\$ 896	\$ 1,085	\$ 189	Finding 3
Benefits	282	341	59	Finding 3
Disability payments	86	86	—	
Services and supplies	546,146	44,527	(501,619)	Finding 1
Total direct costs	547,410	46,039	(501,371)	
Indirect costs	312	377	65	Finding 3
Total direct and indirect costs	547,722	46,416	(501,306)	
Less offsetting savings/reimbursements	(423,804)	—	423,804	Finding 4
Total program costs	123,918	46,416	(77,502)	
Reimbursement percentage	× 50%	× 50%	× 50%	
Total claimed costs	<u>\$ 61,959</u>	23,208	<u>\$ (38,751)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 23,208</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Salaries	\$ 1,877	\$ 2,193	\$ 316	
Benefits	526	614	88	
Disability payments	89,534	77,230	(12,304)	
Services and supplies	<u>1,253,788</u>	<u>365,631</u>	<u>(888,157)</u>	
Total direct costs	1,345,725	445,668	(900,057)	
Indirect costs	<u>807</u>	<u>947</u>	<u>140</u>	
Total direct and indirect costs	1,346,532	446,615	(899,917)	
Less offsetting savings/reimbursements	<u>(423,804)</u>	—	<u>423,804</u>	
Total program costs	922,728	446,615	(476,113)	
Reimbursement percentage	× 50%	× 50%	× 50%	
Total claimed costs	<u>\$ 461,364</u>	223,308	<u>\$ (238,056)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 223,308</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated services and supplies costs

The county claimed \$1,253,788 for services and supplies during the audit period. Service and supply costs totaling \$888,157 were unallowable because the county inadvertently claimed insurance reimbursement payments of \$423,805 as expenditures, claimed \$350,919 for medical and benefit expenses that are covered by the county's excess insurance policy, claimed \$111,574 for excess insurance premiums that cover all county employees instead of just those who are cancer patients, and claimed \$1,859 for Workers' Compensation administration fees that were not properly supported.

Unallowable costs occurred for the following reasons.

- The county included reimbursement payments from its General Reinsurance (Excess Insurance) carrier in the amount of \$423,805 during the audit period (\$84,688 for FY 2001-02 and \$339,117 for FY 2003-04) as claimed expenditures, in error. The error occurred due to a posting error made within the county's expenditure ledger; as a result, the revenues were mistakenly posted as expenditures. Accordingly, we adjusted allowable services and supplies for FY 2001-02 and FY 2003-04 to correct for these posting errors.
- The county had an excess insurance policy in force during the audit period that pays the county for medical expenses that exceed \$250,000 for an individual employee. We noted that one employee's expenses exceeded the \$250,000 amount by \$350,919 during the audit period (\$129,655 for FY 2001-02, which includes \$11,581 in expenditures carried over from FY 2000-01, \$130,951 for FY 2002-03, and \$90,313 for FY 2003-04). The excess is unallowable.
- The county overstated its per-claimant costs incurred for Workers' Compensation administration fees by \$1,859 during the audit period (\$462, \$696, and \$701 for FY 2001-02 through FY 2003-04, respectively). The county's contract with the administrator included a monthly fee for services rendered. The county prepared an "SB 90 Calculation Sheet" that estimated the percentage breakdown of the monthly administrative fee billing between "medical only claims" (15%), "indemnity claims" (25%), and "legal claims" (60%). The county then multiplied the total number of open claims by the percentages above to determine the number of claims within each category. The county then divided the total annual cost for the administration fees only by the number of calculated "legal claims to determine the per monthly cost per claimant." However, the county provided no corroborating evidence to support the percentage of allocations made between the various types of claims administered. The county did have sufficient documentation to support dividing the total amount of annual administration fees by the total number of Workers' Compensation claims administered, regardless of type, to determine the per monthly cost per claimant. Using this approach, monthly per-claimant costs changed from \$67.46 to \$48.24 for FY 2001-02, from \$62.88 to \$43.57 for FY 2002-03, and from \$58.08 to \$41.15 for FY 2003-04.

- The county claimed unallowable costs associated with excess insurance premiums in the amount of \$111,574 during the audit period (\$40,086 for FY 2002-03 and \$71,488 for FY 2003-04). We determined that the county calculated the premium amount per cancer patient by using the identical procedure described above (dividing the total annual premium by the number of “legal claims”). However, excess insurance coverage applies to *all* county employees and the premium amount should be allocated accordingly. Using this approach, allowable costs for excess insurance premiums changed from \$1,123 to \$9.58 per month per employee for FY 2002-03 and from \$1,570 to \$15 per month per employee for FY 2003-04. The county did not claim excess insurance premium costs for FY 2001-02.

Government Code section 17514 defines “costs mandated by the state” as any increased costs that a local agency is required to incur. The county is not required to incur costs over \$250,000 for any individual claimant because its excess insurance carrier reimburses those costs.

Parameters and Guidelines identifies reimbursable costs as all actual costs attributable to cancer-related ailments, as specified by Labor Code section 3212.1. In addition, *Parameters and Guidelines* states:

Cancer that has developed or manifested itself in peace officers will be presumed to have arisen out of and in the course of employment, unless the presumption is controverted by other evidence. The presumption is extended to a peace officer following termination of service for a period of three calendar months for each year of requisite service, but not to exceed sixty (60) months in any circumstance, commencing with the last date actually worked in the specified capacity.

Parameters and Guidelines states:

For auditing purposes, all costs claimed must be traceable to source documents or worksheets that show evidence of and the validity of such costs.

The following table summarizes the audit adjustments.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Medical expenses	\$ (129,655)	\$ (130,951)	\$ (90,313)	\$ (350,919)
Revenues misclassified	(84,688)	—	(339,117)	(423,805)
Administration fees	(462)	(696)	(701)	(1,859)
Excess insurance	—	(40,086)	(71,488)	(111,574)
Audit adjustment	<u>\$ (214,805)</u>	<u>\$ (171,733)</u>	<u>\$ (501,619)</u>	<u>\$ (888,157)</u>

Recommendation

We recommend that the county ensure that all claimed costs are properly supported and reimbursable under the mandated program. Specifically, the county should ensure that claims only mandate-reimbursable costs and that it supports claim costs.

SCO’s Comment

The county did not respond to the finding; the finding and recommendation remain unchanged.

**FINDING 2—
Overstated disability
payment costs**

The county claimed unallowable costs because the county overstated disability payments by \$12,304 for FY 2001-02. The county claimed 100% of disability payments made to a claimant, although a portion of the benefits relate to a prior injury that occurred before the claimant was diagnosed with cancer.

Based on the court’s stipulation award, 22.5% of the disability payment relates to the prior injury. However, the county claimed 100% (\$54,683) of the disability payments made to this claimant. Accordingly, we noted an audit adjustment of \$12,304 (22.5% of \$54,683).

Parameters and Guidelines states:

For auditing purposes, all costs claimed must be traceable to source documents or worksheets that show evidence of and the validity of such costs.

Recommendation

We recommend that the county ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

SCO’s Comment

The county did not respond to the finding; the finding and recommendation remain unchanged.

**FINDING 3—
Understated
productive hourly
rates**

Salary and benefit costs totaling \$404 were underclaimed during the audit period because the county understated productive hourly rates for FY 2001-02 and FY 2003-04. Related indirect costs based on the indirect cost rates claimed totaled \$140. The understatement occurred because the county used budgeted salary and benefit amounts instead of actual amounts to calculate productive hourly rates.

As a result, we adjusted claimed salary, benefit, and related indirect costs as follows:

	Fiscal Year		Total
	2001-02	2003-04	
Salaries	\$ 127	\$ 189	\$ 316
Benefits	29	59	88
Subtotal	159	248	404
Indirect costs	75	65	140
Audit adjustment	\$ 231	\$ 313	\$ 544

Parameters and Guidelines states:

For auditing purposes, all costs claimed must be traceable to source documents or worksheets that show evidence of and the validity of such costs.

Recommendation

We recommend the county to establish and implement procedures to ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

SCO’s Comment

The county did not respond to the finding; the finding and recommendation remain unchanged.

**FINDING 4—
Overstated offsetting
savings/reimbursements**

The county overstated offsetting savings/reimbursements by \$423,804 during the audit period. The county claimed offsetting savings/reimbursements attributable to non-reimbursable expenses.

The county offset its claim for FY 2003-04 for reimbursement payments that it received from its excess insurance carrier of \$84,688 in FY 2001-02 and \$339,117 in FY 2003-04. These payments were reimbursements for medical payments related to cancer patients that exceeded the \$250,000 limit established within the county’s insurance contract. These receipts are attributable to non-reimbursable costs. We identified unallowable costs recoverable from outside insurance in Finding 1. Therefore, the associated savings/reimbursements is also unallowable.

Parameters and Guidelines states that reimbursement for this mandate received from any source shall be identified and deducted from the claim. However, excess insurance payments are not applicable to reimbursable mandated costs; therefore, those reimbursements are unallowable for mandated program claiming purposes.

Recommendation

We recommend that the county identify and deduct from its claims only those offsetting savings/reimbursements that are attributable to costs reimbursable under the mandated program.

SCO’s Comment

The county did not respond to the finding; the finding and recommendation, with minor edits, remain unchanged.

**State Controller's Office
Division of Audits
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Sacramento, CA 94250-5874**

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